

## Message Text

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ACTION EUR-12

INFO OCT-01 EA-12 ISO-00 AID-05 CIAE-00 COME-00 EB-08  
FRB-01 INR-10 NSAE-00 ICA-20 XMB-04 OPIC-06 SP-02  
LAB-04 SIL-01 OMB-01 DODE-00 PM-05 H-02 L-03  
NSC-05 PA-02 SS-15 IO-14 ACDA-12 CEA-01 STR-07  
AGRE-00 /153 W

-----035211 011852Z /42

R 011825Z AUG 78  
FM AMEMBASSY BONN  
TO SECSTATE WASHDC 0772  
DEPARTMENT TREASURY  
INFO AMEMBASSY BRUSSELS  
AMEMBASSY LONDON  
AMEMBASSY PARIS  
AMEMBASSY ROME  
AMEMBASSY TOKYO  
AMCONSUL FRANKFURT

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USEEC ALSO FOR EMBASSY, USOECD ALSO FOR EMBASSY

DEPARTMENT PASS FEDERAL RESERVE

E.O. 11652: N/A  
TAG: ECON, EFIN, GW  
SUBJECT: FINANCIAL DEVELOPMENTS IN GERMANY  
(JULY 25-31)

REF: BONN 13158, BONN 13947, BONN 3680

1. SUBJECTS COVERED: CABINET PASSES DM 204.6 BILLION  
FEDERAL DRAFT BUDGET FOR 1979; REVISED TAX REVENUE  
ESTIMATES FOR 1978 AND 1979 (TABLE); FOREIGN EXCHANGE  
MARKET (TABLE); MONEY MARKET (TABLE); BUNDESBANK  
FOREIGN POSITION; BANK LIQUIDITY; SALE OF TREASURY  
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NOTES (KASSEN OBLIGATIONEN); BOND MARKET (TABLE);  
FOREIGN DM BONDS: ECONOMIC INDICATORS PUBLISHED THIS  
WEEK (TABLE)

2. CABINET PASSES DM 204.6 BILLION FEDERAL DRAFT  
BUDGET FOR 1979:  
THE CABINET HAS NOW FORMALLY PASSED THE FEDERAL DRAFT

BUDGET FOR 1979. THE DRAFT PROVIDES FOR EXPENDITURES OF DM 204.6 BILLION, UP 8.4 PERCENT FROM APPROVED 1978 LEVELS. THIS FIGURE INCLUDES THE DM 4.7 BILLION ADDITION TO EARLIER SPENDING PLANS FOR 1979 PROPOSED IN THE GOVERNMENT'S ECONOMIC STIMULATION PROGRAM AND DESCRIBED IN PARAGRAPH 3 OF BONN 13947. FEDERAL TAX REVENUES FOR 1979 ARE BUDGETED AT DM 159.4 BILLION. THIS TAKES INTO ACCOUNT THE NEW JULY 24, 1978 TAX REVENUE ESTIMATES (SEE PARA 3) AND IS ADDITIONALLY ADJUSTED FOR THE IMPACT ON FEDERAL REVENUES OF THE PROPOSED INCOME TAX RELIEF/VAT INCREASE DESCRIBED IN PARAGRAPHS 2 AND 4 OF BONN 13947. ADMINISTRATIVE REVENUES OF THE FEDERAL GOVERNMENT IN 1979 ARE BUDGETED AT DM 9.1 BILLION AND SENIORAGE RECEIPTS AT DM 0.5 BILLION. NET BORROWING REQUIREMENTS THUS AMOUNT TO DM 35.6 BILLION, AS OPPOSED TO THE DM 30.8 BILLION AUTHORIZED FOR 1978, AND THUS WOULD ONCE AGAIN EXCEED BUDGETED INVESTMENT-TYPE OUTLAYS (DM 33.5 BILLION). THE DRAFT BUDGET IS SCHEDULED TO BE SUBMITTED TO LEGISLATORS ON OR ABOUT SEPTEMBER 20, I.E., IMMEDIATELY AFTER THE PARLIAMENTARY RECESS. (NOTE: THE USUAL BREAKDOWN OF PROPOSED FEDERAL EXPENDITURES BY INDIVIDUAL MINISTRIES AND MAJOR BUDGET SUBTITLES WILL BE SUBMITTED SEPARATELY.)

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AGRE-00 /153 W

-----035286 011852Z /42

R 011825Z AUG 78

FM AMEMBASSY BONN

TO SECSTATE WASHDC 0773  
 DEPARTMENT TREASURY  
 INFO AMEMBASSY BRUSSELS  
 AMEMBASSY LONDON  
 AMEMBASSY PARIS  
 AMEMBASSY ROME  
 AMEMBASSY TOKYO  
 AMCONSUL FRANKFURT

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### 3. REVISED TAX REVENUE ESTIMATES FOR 1978 AND 1979:

THE FEBRUARY 21-23, 1978, OFFICIAL TOTAL PUBLIC SECTOR TAX REVENUE ESTIMATES FOR 1978 AND 1979 REPORTED IN BONN 3680 WERE REVISED ON JULY 24. EARLIER FORECASTS WERE UPPED BY DM 3.8 BILLION FOR 1978 AND DM 3.1 BILLION FOR 1979, WITH THE FEDERAL GOVERNMENT ACCOUNTING FOR DM 2 BILLION OF THE ADDITIONAL REVENUES IN BOTH THIS YEAR AND NEXT. THE NEW TAX REVENUE ESTIMATES FOR THE FEDERAL GOVERNMENT HAVE ALREADY BEEN INCORPORATED IN THE FEDERAL DRAFT BUDGET FOR 1979 (REPORTED ABOVE). THE NEW FIGURES ARE SHOWN BELOW:

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#### PUBLIC SECTOR TAX REVENUE ESTIMATES (BILLION DM)

|   | 1978  | 1979  |  |  |
|---|-------|-------|--|--|
| FEDERAL GOVERNMENT                          | 153.0 | 163.4 |  |  |
| STATES                                      | 109.1 | 116.6 |  |  |
| MUNICIPALITIES                              | 43.1  | 45.9  |  |  |
| EQUALIZATION OF BURDENS FUND                | 0.9   | 0.3   |  |  |
| EEC SHARE OF VAT AND DUTIES                 | 9.4   | 10.6  |  |  |
| TOTAL                                       | 315.5 | 336.8 |  |  |
| (INCREASE OVER PREVIOUS<br>YEAR IN PERCENT) | (5.4) | (6.8) |  |  |

### 4. FOREIGN EXCHANGE MARKET:

DURING THE PERIOD JULY 25-AUGUST 1, FRANKFURT SPOT AND FORWARD DOLLAR RATES DEVELOPED AS FOLLOWS:

| SPOT DOLLARS       | FORWARD DOLLARS     |
|--------------------|---------------------|
| (IN DM PER \$1.--) | (IN PCT. PER ANNUM) |

OPENING FIXING CLOSING ONE-MONTH THREE-MONTH

|         | OPENING | FIXING | CLOSING | ONE-MONTH | THREE-MONTH |
|---------|---------|--------|---------|-----------|-------------|
| JULY 25 | 2.0360  | 2.0470 | 2.0483  | -4.9      | -5.1        |
| 26      | 2.0535  | 2.0520 | 2.0570  | -4.3      | -4.8        |
| 27      | 2.0550  | 2.0570 | 2.0565  | -5.0      | -5.0        |
| 28      | 2.0495  | 2.0510 | 2.0410  | -5.4      | -4.8        |
| 31      | 2.0400  | 2.0413 | 2.0405  | -5.1      | -4.8        |
| AUG 1   | 2.0355  | 2.0347 | N.A.    | N.A.      | N.A.        |

5. MONEY MARKET:

CALL MONEY RATES DIPPED SHARPLY DURING THE PERIOD UNDER REVIEW, TO WELL UNDER THE LOMBARD LENDING RATE.  
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ACCORDING TO THE PRESS REPORTS THE DECLINE RESULTED FROM A TRANSFER OF OFFICIAL ASSETS OUT OF BUNDESBANK ACCOUNTS INTO THE BANKING SYSTEM. SPECULATION IS THAT THE GOVERNMENT IS ATTEMPTING TO SUPPORT THE BOND MARKET, WHICH HAS BEEN VERY WEAK OF LATE, THOUGH AN INFLUX OF LIQUIDITY. THE FACT THAT THE GOVERNMENT WILL SOON OFFER KASSEN OBLIGATIONEN (TREASURY NOTES) ON THE MARKET (SEE PARA 8) IS ALSO SEEN AS A FACTOR. FOR THE REPORTING PERIOD, FRANKFURT INTERBANK LENDING RATES DEVELOPED AS FOLLOWS:

CALL MONEY ONE-MONTH THREE-MONTH

|         | CALL MONEY | ONE-MONTH | THREE-MONTH |
|---------|------------|-----------|-------------|
| JULY 25 | 3.45-3.50  | 3.65      | 3.75        |
| 26      | 3.35-3.45  | 3.65      | 3.75        |
| 27      | 2.50-3.00  | 3.65      | 3.75        |
| 28      | L.75-3.00  | 3.55      | 3.75        |

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FRB-01 INR-10 NSAE-00 ICA-20 XMB-04 OPIC-06 SP-02  
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NSC-05 PA-02 SS-15 IO-14 ACDA-12 CEA-01 STR-07

AGRE-00 /153 W

-----035274 011852Z /42

R 011825Z AUG 78

FM AMEMBASSY BONN

TO SECSTATE WASHDC 0774

DEPARTMENT TREASURY

INFO AMEMBASSY BRUSSELS

AMEMBASSY LONDON

AMEMBASSY PARIS

AMEMBASSY ROME

AMEMBASSY TOKYO

AMCONSUL FRANKFURT

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31 2.75-3.10 3.55 3.75

6. BUNDESBANK FOREIGN POSITION:

DURING THE PERIOD JULY 16 - 23 THE BUNDESBANK'S NET FOREIGN POSITION DECLINED BY DM 0.4 BILLION TO DM 89.1 BILLION. FOREIGN EXCHANGE HOLDINGS FELL BY DM 150 MILLION AND SDR HOLDINGS DECLINED BY DM 74 MILLION. FOREIGN LIABILITIES INCREASED BY ABOUT DM 190 MILLION.

7. BANK LIQUIDITY:

IN THE SAME PERIOD, BANK LIQUIDITY INCREASED BY DM 0.9 BILLION. MAJOR FACTORS INCREASING LIQUIDITY WERE A REDUCTION BY DM 3.2 BILLION IN BANKS' HOLDINGS OF RESERVES AT THE BUNDESBANK, BUNDESBANK PURCHASES OF UNCLASSIFIED

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DM 1.0 BILLION OF DOMESTIC BONDS AND A DM 1.5 BILLION DECLINE IN CURRENCY IN CIRCULATION.

LIQUIDITY WAS REDUCED DUE TO PAYMENTS FOR THE MID-JULY TAX DATE WHICH INCREASED FEDERAL AND STATE GOVERNMENT ASSETS HELD AT THE BUNDESBANK BY DM 2.1 AND DM 2.3 BILLION, RESPECTIVELY, AND THE ABOVE-MENTIONED DECLINE IN THE BUNDESBANK'S FOREIGN POSITION.

8. SALE OF TREASURY NOTES (KASSEN Obligationen):

THE BUNDESBANK, ACTING AS AGENT OF THE FEDERAL GOVERNMENT, WILL SELL BY WAY OF TENDER TREASURY NOTES IN AS YET UNSPECIFIED AMOUNTS BEGINNING AUGUST 3. TWO TRANCHES WILL BE OFFERED. ONE WITH A THREE-YEAR MATURITY AND NOMINAL INTEREST RATE OF 5.75 PERCENT AND A SECOND WITH A FOUR-YEAR MATURITY AND A NOMINAL INTEREST RATE OF

6.0 PERCENT.

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NSC-05 PA-02 SS-15 IO-14 ACDA-12 CEA-01 STR-07  
AGRE-00 /153 W  
-----035345 011855Z /42

R 011825Z AUG 78  
FM AMEMBASSY BONN  
TO SECSTATE WASHDC 0775  
DEPARTMENT TREASURY  
INFO AMEMBASSY BRUSSELS  
AMEMBASSY LONDON  
AMEMBASSY PARIS  
AMEMBASSY ROME  
AMEMBASSY TOKYO  
AMCONSUL FRANKFURT

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9. BOND MARKET:

AGAIN THIS WEEK PRICE DECLINES PREVAILED ON THE DOMESTIC  
BOND MARKET. CONTINUED UNCERTAINTY ABOUT THE CAPITAL  
NEEDS OF THE FEDERAL AND STATE GOVERNMENTS HAS PRE-  
CIPITATED A SELLING SPREE WHICH WAS ONLY PARTIALLY  
STEMMED BY BUNDESBANK PURCHASES. ACCORDING TO THE PRESS,  
AVERAGE YIELDS OF OUTSTANDING DOMESTIC BONDS BROKEN  
DOWN BY REMAINING MATURITY DEVELOPED AS FOLLOWS:

REMAINING MATURITY  
(YEARS) 1 3 5 7 9 10  
--- --- --- --- --- ---

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JULY 30 4.50 6.10 6.60 6.80 6.90 7.00

JULY 23 4.55 6.00 6.50 6.65 6.75 6.85

## 10. FOREIGN DM BONDS:

THE DM 100 MILLION NORGES KOMMUNALBANK BOND ISSUE (BONN 13158) WAS SOLD AT PAR WITH A 6 PERCENT COUPON AND MAXIMUM MATURITY 12 YEARS. THE AUSTRIAN KONTROLLBANK A.G. PLANS A DM 75 MILLION ISSUE THROUGH A BANKING CONSORTIUM HEADED BY THE BAYRISCHE VEREINSBANK. A MATURITY OF 6 YEARS, NOMINAL INTEREST OF 5.75 PERCENT AND A SELLING PRICE OF 99.50 ARE CONDITIONS EXPECTED. THE BONDS WILL BE GUARANTEED BY THE GOVERNMENT OF AUSTRIA. THE CHASE MANHATTAN OVERSEAS BANKING CORP. PLANS A DM 100 MILLION BOND ISSUE THROUGH A CONSORTIUM HEADED BY WESTDEUTSCHE LANDESBANK. A 15 YEAR MAXIMUM MATURITY AND 6.0 PERCENT COUPON RATE ARE EXPECTED. THE ISSUE WILL BE RETIRED IN 10 YEARLY INSTALMENTS BEGINNING IN 1984. AVERAGE MATURITY IS 10 3/4 YEARS. THE WORLD BANK WILL SELL BONDS AMOUNTING TO DM 400 MILLION IN TWO DM 200 MILLION TRANCHES UNDER THE LEADERSHIP OF THE DEUTSCHE BANK. ONE TRANCHE WILL CARRY A 6 YEAR MATURITY, COUPON OF 5 75 PERCENT AND A SELLING PRICE OF 99.5 THE SECOND WILL HAVE A 10 YEAR MATURITY, 6 PERCENT COUPON RATE AND SELLING PRICE OF 98.0

## 11. ECONOMIC INDICATORS PUBLISHED THIS WEEK:

## NON-SEASONALLY ADJUSTED DATA

|                     | APRIL | MAY | JUNE | JULY |
|---------------------|-------|-----|------|------|
| CONSUMER PRICES 1/  | 2.9   | 2.7 | 2.4  | 2.6  |
| INDUSTRIAL PRODUCER |       |     |      |      |

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|                      |      |      |      |    |
|----------------------|------|------|------|----|
| PRICES 1/            | 0.8  | 1.0  | 1.1  | -- |
| IMPORT PRICES 1/, 2/ | -7.6 | -6.4 | -5.5 | -- |
| EXPORT PRICES 1/, 2/ | 0.4  | 0.8  | 1.1  | -- |

1/ PERCENT CHANGE FROM PREVIOUS  
YEAR'S LEVEL.

2/ CALCULATED ON THE BASIS OF INDICES  
REFLECTING THE DEVELOPMENT OF PRICES  
FOR A GIVEN (1970) BASKET OF GOODS.

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## Message Attributes

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**Current Classification:** UNCLASSIFIED  
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**Draft Date:** 01 aug 1978  
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**Original Handling Restrictions:** n/a  
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**TAGS:** PGOV, CH, FR, VN  
**To:** STATE TRSY  
**Type:** TE  
**vdkgvwkey:** odb://SAS/SAS.dbo.SAS\_Docs/c49f1759-c288-dd11-92da-001cc4696bcc  
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